Economics Group

An Emerging View of Post Crisis Consumer Spending

Today’s personal income and spending report describes how after a stimulus-fueled summer spending splurge on goods, income growth now relies on wages & salaries and the slow recovery in services outlays is underway.

Income Takes a Hit from Fading Fiscal Boost

We are not out of the woods from this pandemic by any means, but today’s personal income and spending report offers some visibility on the shape that consumers are in as the stimulus measures fade and the job market recovery is under way.

Personal income fell 2.7% in August, which was a slightly larger decline than had been expected; this was the first month without the $600 weekly top-up to unemployment benefits from the federal government. We had estimated the impact of that hit to be in the neighborhood of $72 billion per month. In the actual event reported here this morning, we see that we may have slightly overshot the estimate, but not too far from the mark with the monthly annualized decline in unemployment benefits coming in at $686.9 billion ($57 billion on a monthly basis).

If you take transfer payments out of it, income was up 1.2% in August with wages and salaries driving the increase with a fourth consecutive monthly gain. Even after that streak of improvement, wages and salaries are still about 4% below pre-crisis levels.

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The PCE deflator also increased for a fourth consecutive month. The 0.3% monthly increase takes the yearly change in this broad measure of inflation to 1.4%, which is still low, but up from the 1.1% reported last month.

With less flying and driving, energy prices remain soft. Little surprise then that the core PCE came in a little hotter at 1.6% on the year-over-year rate. While still low, that marks the fastest pace of core inflation since March.

The spending figures were about in line with expectations. On the surface of things, it looked like a beat with spending and real spending coming in ahead of consensus, but both saw downward revisions in the prior month.

For the first time since the pandemic struck, services spending (up 1.4% in August) outpaced goods spending (up just 0.2%).

In this August data we found evidence of some unwinding of spending patterns that fueled the sharp increases in the summer months. In fact the only goods categories to report a decline were recreational goods and grocery stores. After months of cooking and dishes, consumers were keen to head out or outdoor seating.

Restaurants sales shot up 7.1% in August, a gain only exceeded in the immediate wake of the shutdowns.

Although recreational goods dipped, recreation services saw a sizeable gain in August, suggesting people are acclimating to face masks and social distancing but still able to have a good time. Still, service spending remains down 7.4% from its pre-virus position, with all major categories still under water, with the exception of housing & utilities and financial services.

Source: U.S. Department of Commerce and Wells Fargo Securities